GA1.13: NSIAD-90-170

United States General Accounting Office

GAO

Report to the Honorable
Andy Ireland, House of Representatives

12

May 1990

LAPSED ACCOUNTS

Army, Navy, and Air Force "M" and Merged Surplus Authority Account Balances

GAO

United States
General Accounting Office
Washington, D.C. 20548

National Security and
International Affairs Division

B-238014

May 22, 1990

The Honorable Andy Ireland
House of Representatives

Dear Mr. Ireland:

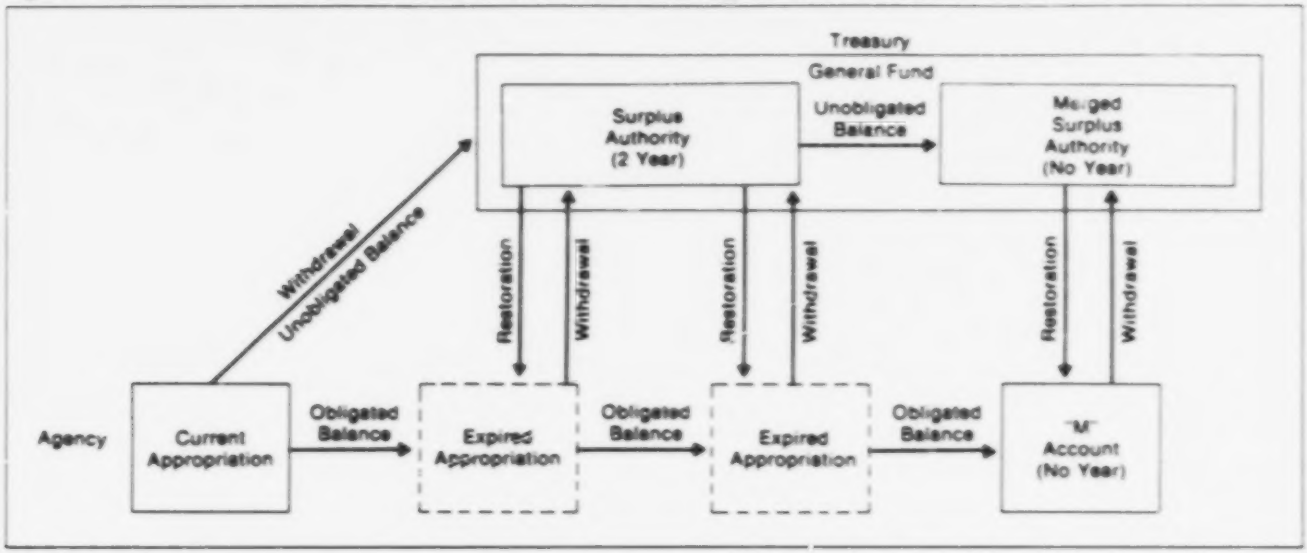
As requested by your office, this report summarizes information we discussed previously with your staff concerning the Department of Defense's use of "M" and merged surplus authority balances.

Background

In 1956 the Congress established the "M" and merged surplus authority accounts for the purpose of streamlining the method by which agencies pay obligations resulting from prior year activities. In our opinion, the Congress did not expect these accounts to accumulate large balances. However, our historical analysis of the Army's, the Navy's, and the Air Force's accounts has shown that the accounts have grown considerably since their creation. Further, the Congress has repeatedly expressed concern about the increasing balances in the "M" and merged surplus authority accounts and, more recently, their possible misuse.

"M" accounts are maintained by an agency by appropriation (e.g., the Air Force's aircraft procurement appropriation) into which unliquidated obligated balances are transferred. The balances in these accounts have lost fiscal year identity and are used for the payment of valid, previously incurred obligations. Merged surplus authority accounts are Department of the Treasury accounts maintained by an agency into which unobligated and deobligated balances have been withdrawn. The balances in these accounts also lose fiscal year identity and are merged with other amounts from appropriation accounts for the same general purpose. Merged surplus authority account balances can be restored to the "M" accounts for the payment of upward adjustments to prior obligations that were previously incurred by an agency. Figure 1 illustrates the withdrawal and restoration process.

Figure 1: The Process of Withdrawals, Restorations, and Transfers of Appropriation Balances



Pertinent Legislation

In 1956 the Congress enacted Public Law 84-798. This law created the "M" and what is now known as the merged surplus authority accounts, eliminated GAO's responsibility to certify the payment of unliquidated obligations from expired appropriation balances, made the "M" account balances available for the payment of previously incurred obligations and the merged surplus authority balances available for restoration to the "M" account, and allowed all appropriations to maintain fiscal year identity for two fiscal years before being transferred into the "M" and merged surplus authority accounts.

The law also states that these appropriations are no longer available for new obligations once they expire. However, legislation since 1984 has allowed the Navy's shipbuilding program to incur new obligations for final ship construction, engineering, and tests and evaluations after the appropriation has expired.

Services' "M" and Merged Surplus Authority Balances

The Army's, the Navy's, and the Air Force's "M" and merged surplus authority account balances totaled about $18 billion and $25 billion at the end of fiscal year 1989, respectively. Table 1 shows the combined balances in the services' "M" and merged surplus authority accounts

between fiscal years 1980 and 1989. In addition, the Army's, the Navy's, and the Air Force's "M" and merged surplus authority balances from fiscal years 1973 through 1989 are shown in appendix I. The balances in these accounts do not represent cash actually set aside by the Treasury. When an agency uses these accounts, the Treasury provides the means to finance the proposed action, as it does for all outlay requirements.

Table 1: Lapsed Account Balances for Fiscal Years 1980 Through 1989 for All Services

Dollars in thousands

Fiscal year	"M" account	Merged surplus authority account
1980	$2,741,706	$15,184,989
1981	3,367,883	15,276,549
1982	3,349,629	16,262,746
1983	4,205,433	18,422,910
1984	5,016,975	18,291,124
1985	6,744,759	19,817,631
1986	9,571,045	21,299,887
1987	12,366,323	22,797,271
1988	15,032,101	24,367,680
1989	18,498,882	25,394,462

An Office of the Secretary of Defense official advised us that his records show the balances in these accounts are slightly different than those reflected in this table. We did not attempt to reconcile the differences.

Recent Legislation Pertaining to Use of Lapsed Authority

As a result of the congressional interest generated by the Air Force's use of expired and lapsed authority, the Congress has recently placed limitations on the services' ability to restore these funds. The National Defense Authorization Act for fiscal years 1990 and 1991 (P.L. 101-189), dated November 29, 1989, requires the Secretary of Defense to approve a restoration from the merged surplus authority account, which would cause the total amount of restorations for a late contract change for a program, project, or activity to exceed $4 million within a fiscal year. The Office of the Secretary of Defense has provided additonal guidance that the restoration must be within the scope of the original contract. The act also provides any restoration causing the total amount of restorations for a program, project, or activity to exceed $25 million in a fiscal year would require 30-day advance written notification to the Senate and House Committees on Armed Services and on Appropriations, stating the intent to restore such funds and a description of the legal basis and policy reasons for the proposed action.

We conducted our review in accordance with generally accepted government auditing standards. We did not obtain official agency comments on this report. However, we discussed the information with Department of Defense officials and incorporated their views where appropriate.

We plan to provide you a copy of our final report when it is released. We are sending copies of this report to the Chairmen, Subcommittee on Defense, Senate Committee on Appropriations, and Subcommittee on Oversight and Investigations, House Committee on Energy and Commerce; other appropriate congressional committees; the Secretaries of Defense, the Army, the Navy, and the Air Force; the Director, Office of Management and Budget; and other interested parties.

Please contact me at (202) 275-4268 if you or your staff have any questions concerning this report. Other major contributors to this report are listed in appendix II.

Sincerely yours,

Nancy R. Kingsbury

Nancy R. Kingsbury
Director
Air Force Issues

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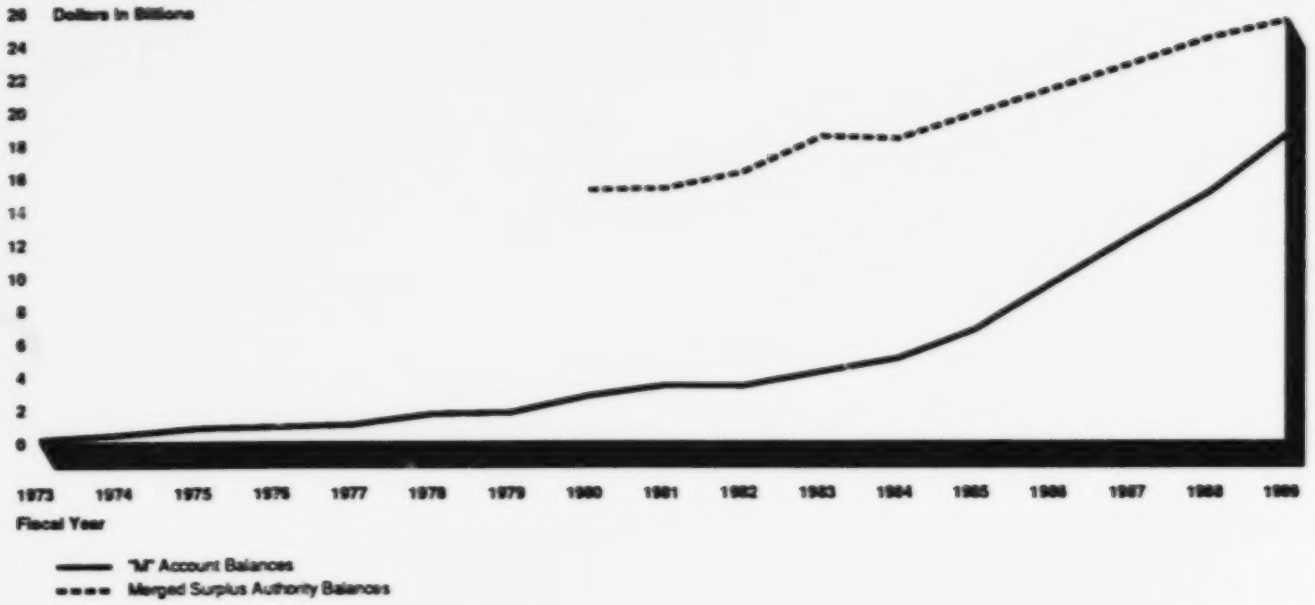
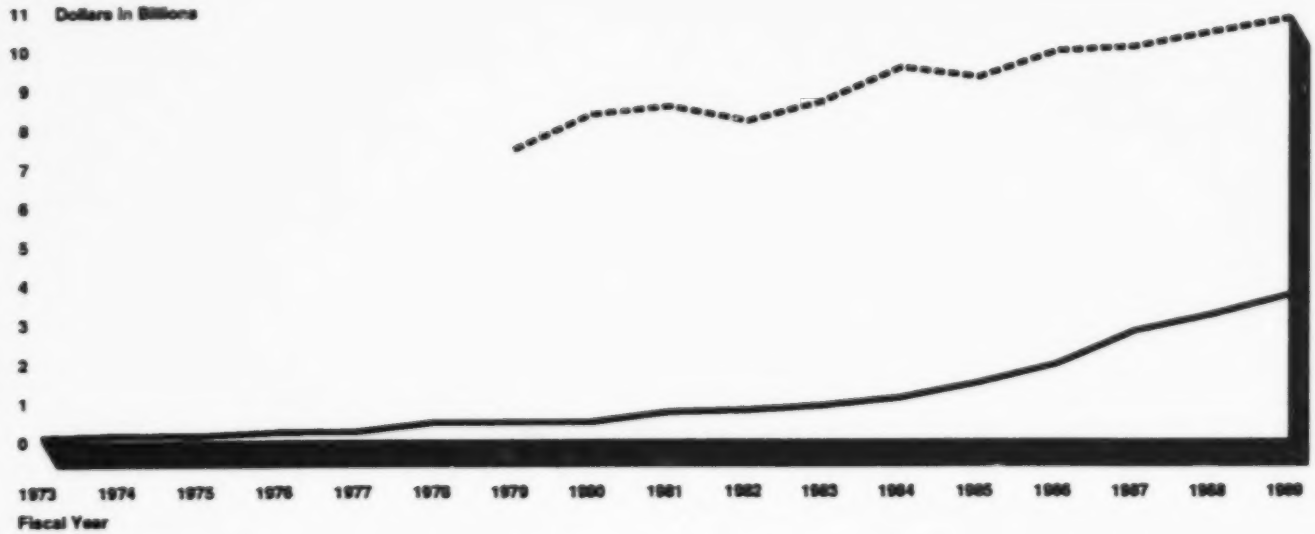
Army, Navy, and Air Force "M" and Merged Surplus Authority Balances

Figure I.1: All Services



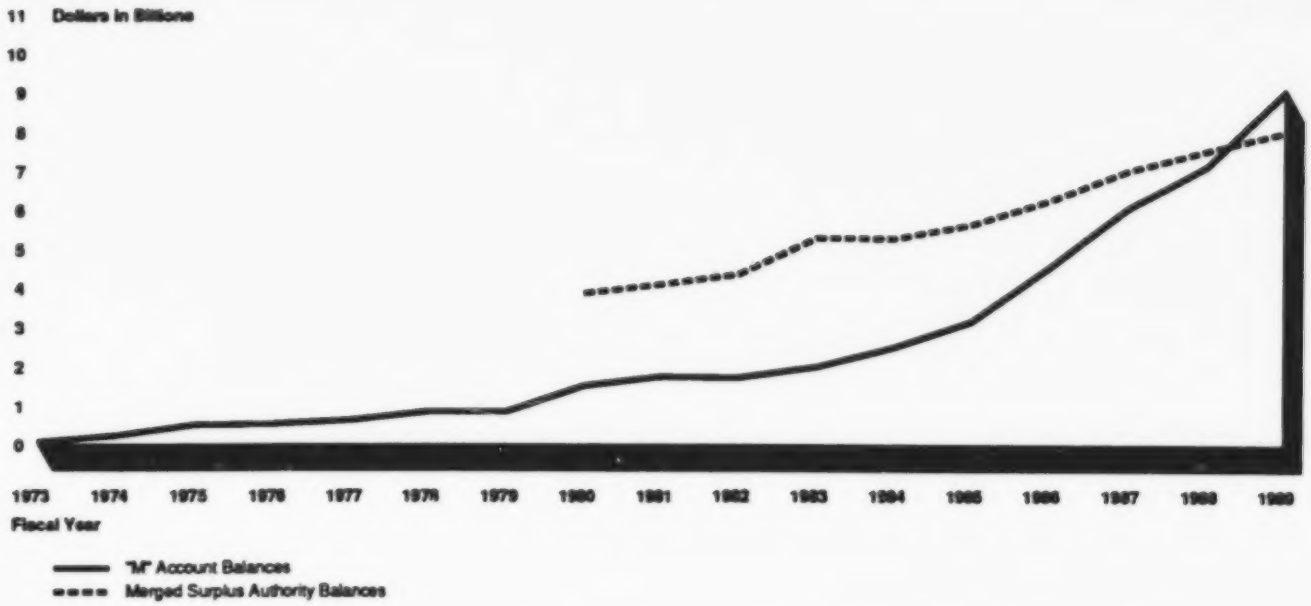
Note: The merged surplus authority balances are only shown for fiscal years 1980 through 1989 because 1980 was the first year these balances were readily available for all services.

Figure I.2: Army



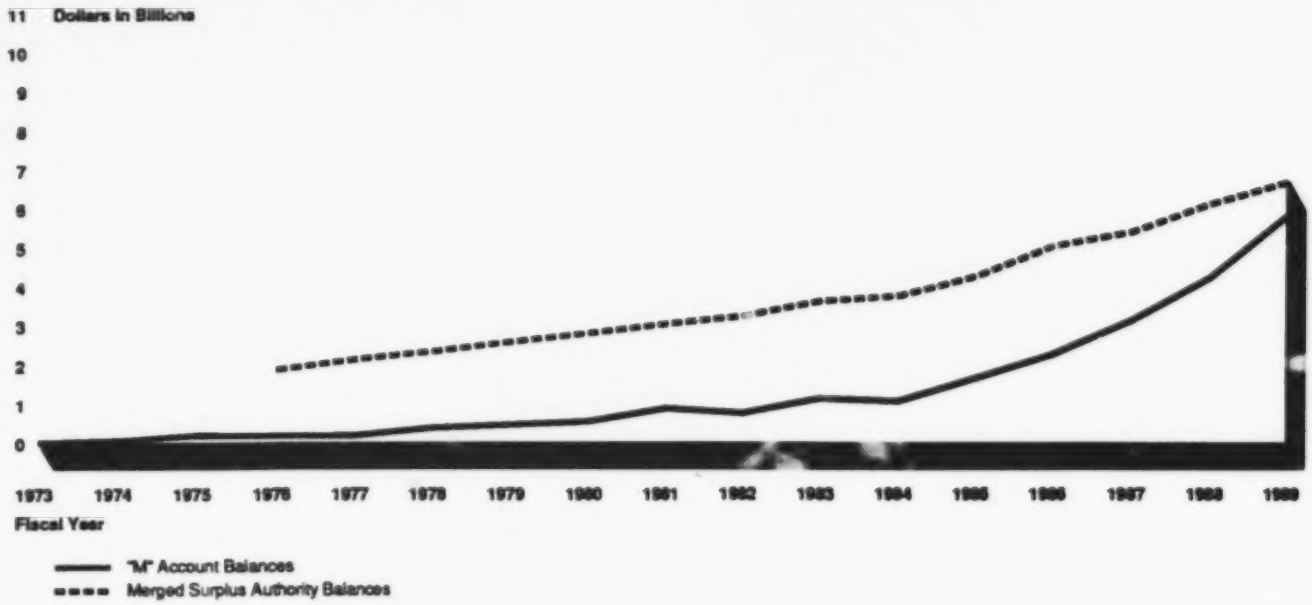
Note: Merged surplus authority balances are not available for fiscal years 1973 through 1978.

Figure I.3: Navy



Note: Merged surplus authority balances are not available for fiscal years 1973 through 1979.

Figure I.4: Air Force



Note: Merged surplus authority balances are not available for fiscal years 1973 through 1975.

Major Contributors to This Report

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